Sharekhan
by BNP PARIBAS

Inox Leisure

Multiple headwinds, normalcy seems a far cry

Sector: Consumer Discretionary
Result Update

	Change
Reco: **Hold**	↓
CMP: **Rs. 254**	
Price Target: **Rs. 270**	↓

↑ Upgrade ↔ No change ↓ Downgrade

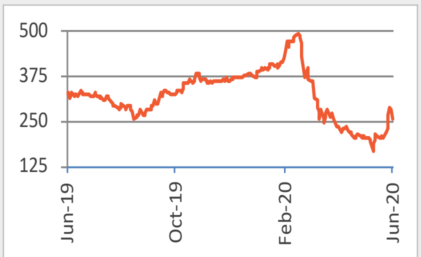
Company details

Market cap:	Rs. 2,614 cr
52-week high/low:	Rs. 511/158
NSE volume: (No of shares)	5.9 lakh
BSE code:	532706
NSE code:	INOXLEISUR
Sharekhan code:	INOXLEISUR
Free float: (No of shares)	4.95 cr

Shareholding (%)

Promoters	52
FII	23
DII	9
Others	15

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	25	(30)	(31)	(22)
Relative to Sensex	17	(25)	(15)	(8)

Sharekhan Research, Bloomberg

INOX Leisure Limited (ILL) reported a revenue decline of 22.4% y-o-y to Rs. 371.6 crore, in-line with our expectations, owing to a sharp drop in footfalls due to virus scare (starting from mid-February 2020) and closure of theaters even before the nationwide lockdown mandates. Due to the closure of theaters (around 17 days) and muted show (poor content pipeline) in February, net box office revenue declined 23% y-o-y with a footfall decline of 29% y-o-y to 12.8 million. F&B revenue declined 24% y-o-y during the quarter, while advertisement revenue declined by 20% y-o-y. Multiplexes were the first to shut down in the wake of nationwide lockdowns and are expected to be last to start operation. Further, the social distancing norm coupled with a truncated F&B menu and staggered seating arrangement would severely impact the performance of multiplexes during 1HFY2021E. This would translate FY2021E to be a washout year for ILL. The management expects customers to return from September/October onwards as it is taking various initiatives such as i) advertising safety features through star endorsements, ii) digital marketing and local area marketing initiatives, iii) reward programme, and iv) private film screenings. The management stated that the monthly cash burn during lock down was Rs 15-16 crores and it is expected to increase when cinema reopen.

Key positives

- Strong liquidity position - cash position stood at Rs. 72 crore (including the undrawn limits)
- Operating metrics improved in FY2020

Key negatives

- Key revenue streams witnessed a decline of 20%+ owing to shut down of operations
- Debt increased Rs. 122.6 crore from Rs. 75 crore in FY2019

Our Call

Valuation: Long trek to back normalcy, downgrade to Hold: We lowered our earnings estimates FY2021E/FY2022E due to a challenging environment in the view of COVID-19 and an anticipated delay in return of normalcy in multiplex business. However, in the long term, we remain positive on the stock, given its strong balance sheet (net debt free) and potential for healthy earnings growth considering India's movie-goers appetite for movies. The stock of ILL has moved up around 60% from its lows over one month and trading at 15x FY2022E earnings. We reduce our target multiples given multiple headwinds ahead and a delayed assumption of normalcy even beyond government lifting of lockdown. Hence, we downgrade our rating to Hold from Buy on ILL with a revised PT of Rs. 270.

Key Risks

(1) Deterioration of content quality might affect footfalls and advertisement revenue growth rates, (2) The inability to take adequate price hikes at the right time might affect the given rising input cost, and (3) further delay in return of normalcy

Valuation Rs cr

Particulars	FY19	FY20	FY21E	FY22E
Revenue	1,692.2	1,897.4	1,316.4	2,327.8
OPM (%)	18.3	31.5	29.3	32.0
Adjusted PAT	138.5	83.9	3.3	172.5
% y-o-y growth	12.4	-39.4	-96.1	-
Adjusted EPS (Rs.)	14.1	8.5	0.3	17.5
P/E (x)	18.1	29.9	756.0	14.5
P/B (x)	2.4	3.8	3.7	2.9
EV/EBITDA (x)	8.6	4.5	6.7	2.9
RoNW (%)	14.4	13.5	0.5	21.6
RoCE (%)	20.9	18.1	4.4	13.3

Source: Company; Sharekhan estimates
**Treasury shares excluded while calculating EPS; *FY2021E/FY2022E numbers are based on Ind AS 116 and lower corporate tax rate.*

Revenue hit by nationwide lockdown: ILL reported revenue decline of 22.4% y-o-y to Rs. 371.6 crore, in-line with our expectations, owing to a sharp drop in footfalls due to the virus scare (starting from mid-February 2020) and a shutdown of theaters in the last two weeks of March in view of nationwide lockdown mandates. Due to the closure of theaters (around 17 days) and muted show (poor content pipeline) in February, net box office revenue declined 23% y-o-y with a footfall decline of 29% y-o-y to 12.8 million. F&B revenue declined 24% y-o-y during the quarter, while advertisement revenue declined by 20% y-o-y. Gross profit margin (GPM) improved 86 BPS y-o-y led by lower exhibition cost to total sales. Gross profit declined 21% y-o-y to Rs. 252 crore during the quarter. Note that reported financials (except revenue and gross profit) on a y-o-y basis are not comparable on account of the switch to IndAS-116, effective from April 1, 2019. Reported EBITDA stood at Rs. 110 crore, ahead of our estimates, due to lower than-expected employee expenses and property rent (received the credit note for the closure period of theaters). Reported loss before tax stood at Rs. 20.6 crore, in-line with our loss expectations of Rs. 20.5 crore. Reported net loss came at Rs. 82.2 crore, owing to impact of deferred tax asset remeasurement on account of change in tax rate. Excluding the one-time item, adjusted net loss stood at Rs. 13.3 crore, below our estimates.

COVID-19 impacted its operating metrics: Footfalls declined 28.9% y-o-y owing to poor content in February and lockdown mandates in the last two weeks of March. Occupancy level stayed at 24% (vs 31% in Q4FY2019) during the quarter. Average ticket price (ATP) was up by 7% y-o-y to Rs. 202, largely due to pass on of benefits on account of reduction in GST rates. Spends per head (SPH) registered a growth of 7% y-o-y to Rs. 78. F&B margin declined to 72% in Q4FY2020 versus 74.3% in Q4FY2019, owing to an inventory write-off amounting to Rs 1.5 crore. Advertisement revenue growth declined 20% y-o-y.

An arduous trek back to reach normalcy: Multiplexes were the first to face a shut down in the wake of nationwide lockdowns and are expected to be last to resume operations. Extended lockdown restrictions (since mid-March) and anticipated few more months of limited operation with social distancing norms post uplifting of lockdown will severely impact the performance of multiplexes during 1HFY2021E. Management indicated that it would take all precautions or measures to ensure social distancing post lockdowns. Further, it would keep gaps between the groups during the seat allocation and keep limited food items in its menu post the resumption of operation. We believe these strict measures would impact its revenue at least in the near-term. The recent release of movies directly on OTT platform could disrupt the audience consumption behavior even after normalcy resumes. Further, the F&B revenue stream is likely to get impacted adversely owing to new normal post fully uplifting of lockdown. The management expects customers would come back from September/October onwards as it is taking various initiatives such as i) advertising safety features through star endorsements, ii) digital marketing and local area marketing initiatives, iii) reward programme, and iv) private film screenings.

Muted show on like-to-like basis (i.e. ex IND AS 116 implementation): The company would have incurred higher lease rental at Rs. 82.7 crore instead of reported lease rental of Rs. 7.6 crore, if Ind AS 116 would not been implemented. Hence, on a comparable basis, EBITDA would have declined by 64% y-o-y to Rs. 34.9 crore. Effectively, EBIDTA margin contracted to 9.4% versus 20.3% in Q4FY2019. Similarly, depreciation and interest expense would have been lower at Rs. 27.8 crore and Rs. 4.4 crore as against reported depreciation and interest expense of Rs. 74 crore and Rs. 61.4 crore, respectively. PBT declined 90% y-o-y to Rs. 7.4 crore during the quarter. On a comparable basis, adjusted net loss would have at Rs. 2.5 crore versus adjusted net profit of Rs. 48.1 crore in Q4FY2019.

Like to Like comparison

Particulars	Q4FY20 Reported	Q4FY20 Excl. Ind AS 116	Q4FY19 Reported	YoY (%) Reported	YoY (%) Excl Ind AS 116
Rent & common facilities charges	7.6	82.7	86.9	-91.3	-4.8
EBITDA	110.0	34.9	97.4	13.0	-64.2
Depreciation & amortisation	74.0	27.8	24.9	197.9	12.0
Finance Cost	61.4	4.4	3.8	1,524.6	16.7
PBT	-20.6	7.4	68.2	-	-
Tax	61.5	9.9	20.1	206.5	-50.8
PAT	-82.2	-2.5	48.1	-	-
EPS (Rs)	-8.4	-0.2	5.0	-	-

Source: Company; Sharekhan estimates

Inox Leisure Q4FY20 Results Concall Highlights

- **Most profitable cinema chain:** The company is considered to be the most profitable cinema chain on i) per screen basis, ii) per patron basis and iii) on per capital invested basis.
- **Achieved certain milestone in FY2020:** During FY2020, the company crossed 600 screens milestone, launched India's first 3 tier cinema rewards programme (membership base stood at 5 million) and also become the only national multiplex chain to be a net debt free company as of March 31, 2020.
- **Healthy performance in FY2020 despite COVID-19 led business distruption:** Though Q4FY20 performance was adversely impacted owing to shut down of operations even prior to nationwide lockdown as a result of COVID-19 pandemic, however the company full year performance remains encouraging as the company reported highest footfall (66 million), highest average ticket price (Rs. 200) and highest spend per head (Rs 80) on the operational front and on the financial front to achieved highest revenues (Rs 1,915 crore, up by 12%), highest EBITDA (Rs 347 crore up by 7%, excluding IND AS116 adjustment) and highest net profit (Rs 141 crore up by 6%).
- **Double digit growth in key revenue streams in FY20:** The company delivered 13%, 14% and 12% growth in net box office collection, net F&B and other operating income, while advertising revenue growth remained weak at 1%. During Q4FY20, the various revenue streams witnessed decline of more than 20% owing to shut down of operations in the last two weeks of March.
- **Operational matrix improves on yearly basis:** Footfalls witnessed an increase of 6% to 66 million during FY2020 largely due to screen additions. However, on comparable properties, footfalls were lower by 6% to 51.6 million. Occupancy level remained at similar level of 28% during FY2020 while was lower by 1% to 27% for comparable properties. Average Ticket Price and Spend per head improved by 1% to Rs 200 and 8% to Rs 80 respectively.
- **Liquidity position remains healthy:** The company has a strong balance sheet with a net debt to equity ratio 0.1x. Also, the company has real estate (six owned cinema properties) and treasury shares worth ~Rs 350 crore and ~Rs 125 crore, respectively. The company current cash position stood at Rs 72 crore (including the undrawn limits) and the company intends to raise additional borrowing of Rs 75 crores during Q1FY2021. The management stated that the monthly cash burn during lock down was Rs 15-16 crores and hence considering the current liquidity position the company is comfortably place for the next six month if the current environment continues.
- **Organic expansion strategy to continue, however pace to moderate in FY2021 owing to COVID-19:** The company has added 10 properties consisting of 58 screen and comprising of 10,979 screens during FY2020. The company could have achieved 70 screen additions during FY2020, however was impacted due to COVID-19 and the remaining is now likely to be added in FY2021E. The company is likely to add 11 properties consisting of 41 screens and comprising of 6,347 seats as 86% of the work is completed and related cost have also been incurred. An amount of Rs 28-30 crores will be required to get the projects completed. However the capex per screen continues to be Rs 2.75 to 3 crore.

- **Content pipeline looks encouraging:** Though the exact timing of the reopening of film exhibition business is unknown, certain producers have announced their film released dates based on which the content pipeline looks healthy. Tenet and Sooryavanshi are expected to be released in July and October respectively while Radhe, Black widow and No time to Die are expected to be released in November and Bhuj, 83 and Laal Singh Chaddha are expected to be released in December.

- **Engagement with partners such as landlord, content creators & distributors and ticket aggregators for cost rationalisation:** The company is in active discussions with the respective partners as it is in the interest of all in the film exhibition ecosystem to stay united in these uncertain times. Multiplexes help in increasing the footfalls in Mall, while it helps in maximising the returns for the film producers and distributors through the box office collection (to release films on theatrical window). The company has not accounted for rental during the lockdown period owing to force majeure clause. Though the company had paid March month rental, it has received credit notes for the lockdown tenure.

- **Deploying resources to bring back customers:** The company is taking various initiatives such as i) advertising safety features through star endorsements and to implement them in all properties, ii) digital marketing and local area marketing initiatives, iii) cross selling on various platforms, iv) reward programme, v) explore cinema going audience database and segment wise targeting vi) to enhance public relations and private film screenings.

- **Discussions with government:** Management indicated that the company under the umbrella of Multiplex Association of India is in discussion with government on the agendas like – (a) liquidity support by providing an interest free loan, (b) reimbursement of manpower cost for the COVID-19 period, (c) GST/Local taxes/duties waiver for one year, (d) waiver of minimum demand charges for electricity and (e) automatic renewal of all cinema operating licences for one year without any fee.

Results Rs cr

Particulars	Q4FY20	Q4FY19	Q3FY20	YoY (%)	QoQ (%)
Net sales	**371.6**	**478.8**	**512.9**	**-22.4**	**-27.6**
Exhibition costs	93.7	127.2	133.7	-26.3	-29.9
Cost of F&B	26.4	31.7	32.0	-16.7	-17.5
Gross Profit	**251.5**	**320.0**	**347.2**	**-21.4**	**-27.6**
Employee Expenses	32.7	30.9	36.9	6.1	-11.3
Property Rent	7.6	86.9	31.7	-91.3	-76.2
Other Expenses	101.1	104.9	109.7	-3.6	-7.8
Operating Profit	**110.0**	**97.4**	**169.0**	**13.0**	**-34.9**
Depreciation	74.0	25.7	64.8	188.4	14.2
Finance Cost	61.4	3.8	54.7	1524.6	12.2
Other Income	4.8	5.3	4.9	-8.8	-1.2
PBT	**-20.6**	**73.2**	**54.2**	**-**	**-**
Tax Provision	61.5	20.1	19.2	206.5	220.4
Reported Net Profit	**-82.2**	**53.1**	**35.0**	**-**	**-**
Exceptional Item	0.0	5.0	0.0		
Adjusted Net Income	**-13.3**	**48.1**	**35.0**	**-**	**-**
EPS (Rs.)	-1.4	5.4	3.6	-	-
Margin (%)					
EBITDA margins	29.6	20.3	32.9	928.2	-332.5
NPM	-22.1	11.1	6.8	-	-

Source: Company; Sharekhan estimates

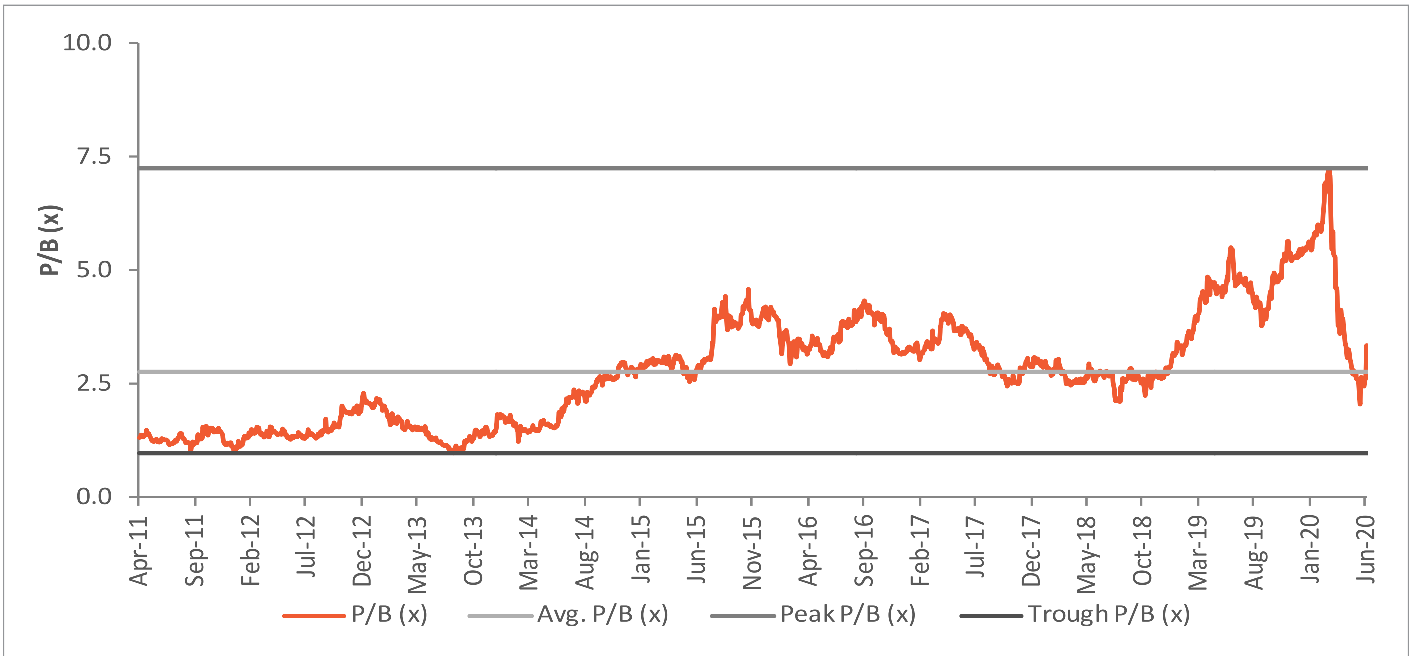
Outlook

Expect FY2021 to be a washout year, but structural story remains intact: The exact impact of the same on the multiplex business is uncertain given the lack of clarity on its magnitude and timeline when it would be contained. Further, the social distancing norm coupled with truncated F&B menu, risk of box office clashes in short window and staggered seating arrangement would impact revenues in the early phase of its operation post uplifting of lockdown. Hence, we believe the impact on the multiplex business would be severe in 1HFY2021E, in turn FY2021E would be a washout year. However, in the long term, the company's strategies to increase footfalls (loyalty programme, non-movies content, enhancing experience of cinema goers, private film screenings, etc.), increasing footfall monetisation efforts and better improving operating metrics are expected to bode well for the company. Further, management guided screens addition plan of 41 screens in FY2021 despite limited cash inflow due to the closure of theaters.

Valuation

Long trek to back normalcy, downgrade to Hold: We lowered our earnings estimates FY2021E/FY2022E due to a challenging environment in the view of COVID-19 and an anticipated delay in return of normalcy in multiplex business. However, in the long term, we remain positive on the stock, given its strong balance sheet (net debt free) and potential for healthy earnings growth considering India's movie-goers appetite for movies. The stock of ILL has moved up around 60% from its lows over one month and trading at 15x FY2022E earnings. We reduce our target multiples given multiple headwinds ahead and a delayed assumption of normalcy even beyond government lifting of lockdown. Hence, we downgrade our rating to Hold from Buy on ILL with a revised PT of Rs. 270.

One-year forward P/B (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Inox Leisure	254	9.9	2,614	-	14.5	6.7	2.9	3.7	2.9	0.5	21.6
PVR*	1,087	4.7	5,583	-	25.4	5.5	4.2	5.3	4.1	23.2	27.3

Source: Company, Sharekhan estimates

About company

Incorporated in 1999, ILL is one of the largest multiplex operators in India. The company currently operates 146 properties (614 screens and over 1.42 lakhs seats) located in 68 cities across India. ILL is the only multiplex operator having a diverse presence across India. The company accounts for 20% share of multiplex screens in India and ~11% share of domestic box office collections.

Investment theme

ILL has aggressively scaled up through organic and inorganic expansion over the past decade, growing from two properties to 146 properties – 614 screens – at present, on an average adding eight screens every quarter since inception. The ILL mega show is supported by improving content quality in the Indian mainstream and regional cinema, with its movies regularly hitting the Rs. 100 crore or Rs. 200 crore box office collection mark. The management expects to deliver a strong performance going forward based on healthy footfalls due to property additions coupled with higher footfall monetisation efforts and a strong content pipeline.

Key Risks

Delay in screen additions and a drop in the quality of content might impact footfalls and advertisement revenue growth rates. Inability to take adequate price hikes at the right time might impact margins in the F&B segment on account of rising input cost.

Additional Data

Key management personnel

Pavan Jain	Non-Executive - Non Independent Chairperson
Vivek Jain	Non-Executive - Non Independent Director
Siddharth Jain	Non-Executive - Non Independent Director
Deepak Asher	Non-Executive - Non Independent Director
Alok Tandon	Chief Executive Officer
Kailash B Gupta	Chief Financial Officer
Parthasarathy Iyengar	Company Secretary & Compliance Officer

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC Asset Management Co Ltd	7.3
2	Sundaram Asset Management Co Ltd	3.3
3	ICICI Prudential Asset Management	2.3
4	DSP Investment Managers Pvt Ltd	2.1
5	Aditya Birla Sun Life Trustee Co P	1.9
6	TAIYO GREATER IN FUND LTD	1.7
7	Franklin India	1.6
8	Abu Dhabi Investment Authority	1.1
9	DFA Investments Dimensions Group	1.0
10	Caisse De Depot (ENAM)	1.0

Source: Bloomberg

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